

May 5, 1998

Honorable John R. Kasich
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Based on Treasury reports of actual receipts and outlays since our March baseline was completed, CBO now estimates that the surplus for 1998 is likely to be \$43 billion to \$63 billion—\$35 billion to \$55 billion larger than the \$8 billion projected in March. In addition, the strength of revenues this year suggests that the surplus is also likely to be larger in succeeding years than was previously anticipated—by \$20 billion to \$30 billion in 1999 (resulting in a surplus of \$30 billion or more instead of the \$9 billion projected in March) and by smaller amounts thereafter.

Although CBO has not undertaken a comprehensive revision of our baseline projections, cumulative developments over the past few months indicate that the 1998 surplus will be significantly larger than was previously estimated. About two-thirds of the increase in the estimated surplus for 1998 stems from unexpected revenues. Although smaller than last year, a surge in April tax receipts above the level previously projected has occurred again this year. Due almost entirely to an unanticipated increase in nonwithheld taxes, this April's receipts exceeded CBO's March baseline estimate by about \$20 billion. In addition, withheld taxes received in recent months have continued to be strong, reflecting in part higher-than-expected total wages in the first quarter of calendar year 1998. Unless the current growth in withheld taxes slows abruptly, it seems likely that total revenues for 1998 will be from \$25 billion to \$35 billion higher than the \$1,680 billion CBO projected in March—an increase of about 1.5 percent to 2 percent.

Similarly, lower-than-anticipated spending through March and a variety of other developments suggest that total outlays are likely to be \$10 billion to \$20 billion (about 0.5 percent to 1 percent) lower than CBO's March estimate. Spending is lower than expected in a number of areas, most notably for programs of the National Institutes of Health, the Federal Emergency Management Agency, and the Federal Highway Administration. Offsetting collections, which are recorded as negative outlays, are also higher than expected in some cases—particularly for the Federal Housing Administration.

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In addition, a number of discrete decisions or events could hold this year's net outlays below previous projections. For instance, based on the President's budget, we have assumed that the Administration would record in 1998 the cost of defaults and modifications of loans to winners of an electromagnetic spectrum auction conducted by the Federal Communications Commission. The cost has not been recorded yet. If the Administration chooses not to recognize the cost this year, 1998 outlays will be \$3.5 billion lower than we anticipated. Finally, the higher-than-anticipated surplus will reduce total federal borrowing needs, thereby lowering interest payments by close to \$2 billion in 1998.

In the absence of an unexpectedly severe downturn in the economy, it seems likely that the surplus will also be larger in 1999 and succeeding years than CBO projected in March. However, because current data do not consistently indicate any long-term improvement in the economy relative to our winter forecast, the likely increase in the surplus for 1999 (\$20 billion to \$30 billion above the March projection) is smaller than the increase in 1998, and the probable increase declines further in subsequent years.

I have attached a copy of CBO's Monthly Budget Review, which will be released tomorrow. I hope the information contained in this letter and that report is useful in your deliberations on the budget. As the year progresses, we will provide you with any additional information that sheds light on likely budget outcomes for 1998.

Sincerely,

June E. O'Neill
Director

Identical letter sent to:

Honorable John M. Spratt, Jr.
Ranking Minority Member

Honorable Pete V. Domenici
Chairman
Senate Committee on the Budget

Honorable Frank R. Lautenberg
Ranking Minority Member
Senate Committee on the Budget